

PUBLIC DISCLOSURE

MAY 28, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

SOUTH COASTAL BANK

279 UNION STREET
ROCKLAND, MA 02370

DIVISION OF BANKS
ONE SOUTH STATION
BOSTON, MA 02110

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **SOUTH COASTAL BANK** prepared by the Massachusetts Division of Banks, the institution's supervisory agency.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory."

South Coastal Bank's rating of satisfactory is based on the five performance criteria detailed throughout this report. Under the first criterion, the Average Net Loan-to-Deposit Ratio, the bank's average ratio of 52.6 percent is considered to meet the standards of satisfactory performance. Under the second criterion, Lending within the Assessment Area, the majority of the bank's HMDA- reportable loans were originated within the cities and towns that comprise the bank's assessment area. The bank was determined to have attained a satisfactory performance in this regard. The third criterion, Distribution of Credit Among Borrowers of Different Income Levels, was also deemed to be at a satisfactory level. The fourth criterion, Geographic Distribution of Loans, was determined to be reasonable given the demographic housing data within the assessment area. South Coastal Bank did not receive any CRA related complaints since the prior examination and the fair lending examination revealed no evidence of discriminatory acts or practices.

PERFORMANCE CONTEXT

Description of Institution

South Coastal Bank, formerly Rockland Savings Bank, was chartered in 1868 under the laws of the Commonwealth of Massachusetts. In September 2000, the bank changed its name from Rockland Savings Bank to South Coastal Bank, partly because of its continued growth and the expansion into other towns, and to distinguish itself from the other Rockland banks. South Coastal Bank is headquartered in Rockland Center and operates four branch offices. In November 2000, the bank expanded its branch network and opened offices in Braintree and Quincy. The remaining two branch offices are located in Scituate and Carver. All office locations maintain 24-hour Automated Teller Machines (ATMs).

The bank provides a variety of financial services to individuals and small businesses. Its primary deposit products are savings, checking and term certificate accounts and its principal lending products are residential and commercial mortgage loans. On March 31, 2002, South Coastal Bank had total assets of \$146 million, of which \$75 million or 51.4 percent were in the form of loans. The composition of the loan portfolio consists of loans secured by one-to-four family residential properties at 68.4 percent, followed by commercial real estate loans at 16.2 percent, construction and land development loans at 9.2 percent, commercial and industrial loans at 5.0 percent and consumer loans at 1.2 percent.

The Federal Deposit Insurance Corporation (FDIC) last examined the bank for compliance with the Community Reinvestment Act on April 26, 1999. That examination resulted in an overall rating of Satisfactory. Other than the bank's small asset size and limited staff, there are no factors that would inhibit its ability to meet community credit needs.

Description of Assessment Area

The Community Reinvestment Act (CRA) requires financial institutions to define an assessment area within which the bank will focus its lending efforts. The Division of Banks evaluates the institution's CRA performance based on the defined assessment area.

With the addition of its two new branches, South Coastal Bank expanded its assessment area in 2000 by adding four municipalities. Its assessment area currently consists of 18 cities and towns located within the Boston and the Brockton Metropolitan Statistical Areas (MSA) and Norfolk and Plymouth Counties. These 18 cities and towns are: Abington, Braintree, Carver, Duxbury, Halifax, Hanover, Hanson, Hingham, Kingston, Marshfield, Norwell, Pembroke, Plymouth, Plympton, Quincy, Rockland, Scituate, and Weymouth. The City of Quincy and the towns of Braintree and Weymouth are located in Norfolk County with the remaining cities and towns located in Plymouth County. The towns of

Abington, Hanson, Halifax and Plympton are located in the Brockton MSA, while the remaining cities and towns are located in the Boston MSA.

In total, there are 78 census tracts within the bank's assessment area: 1 or 1.3 percent of the total census tracts is designated as low-income, 3 or 3.8 percent are moderate-income, 59 or 75.6 percent are middle-income, and 14 or 18.0 percent are upper-income. The remaining 1 census tract (1.3%), which is located in the Town of Marshfield, is designated as NA. The low-income census tract is located in Quincy and the 3 moderate-income census tracts are located in Quincy (2), and Plymouth (1).

According to 1990 U.S. Census Data, the bank's assessment area has a total population of 393,773 individuals. Total households number approximately 143,994, of which 103,412, or 71.8 percent are family households. Total households includes all persons occupying a housing unit whereas a family household includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage or adoption. For purpose of this examination, total households are used in the lending analysis throughout this report.

According to a report obtained from CRA WIZ, 5.8 percent of the total number of households are living below the poverty level. Refer to the following table for additional housing information.

<i>Selected Housing Characteristics by Income Category of the Geography</i>							
<i>Geographic Income Category</i>	<i>Percentages</i>						<i>Median Home Value</i>
	<i>Census Tract</i>	<i>Households</i>	<i>Housing Units</i>	<i>Owner-Occupied</i>	<i>Renter Occupied</i>	<i>Vacant Units</i>	
Low	1.3	0.9	0.9	0.4	2.2	0.3	\$139,600
Moderate	3.8	4.6	4.5	2.4	9.7	3.3	\$141,053
Middle	75.6	77.8	78.2	76.6	80.7	83.4	\$159,065
Upper	18.0	16.7	16.4	20.6	7.4	13.0	\$219,755
N/A	1.3	0.0	0.0	0.0	0.0	0.0	0
<i>Total or Median</i>	100.0	100.0	100.0	100.0	100.0	100.0	\$168,043

Aggregate data, generated by PCI Services, Inc. CRA WIZ, and utilized for lending performance purposes indicates that South Coastal Bank is operating in an extremely competitive mortgage market. Aggregate lending institutions consists of 437 (both large and small) mortgage companies, savings banks, commercial banks, cooperative banks, and credit unions, which have originated and/or purchased residential mortgage and/or home improvement loans within the bank's assessment area in 2000.

As part of the examination process, community organizations are often contacted by examiners to determine if there are any areas in need of assistance from local institutions and to verify if the institutions are ascertaining the needs of the community. These interviews also provide examiners with knowledge regarding the assessment area, its economic base, and community development initiatives. During this

examination, a non-profit organization located within the assessment area was contacted. This contact spoke about the need for affordable housing.

PERFORMANCE CRITERIA

1. LOAN TO DEPOSIT ANALYSIS

A comparative analysis of South Coastal Bank's quarterly net loan-to-deposit ratios for the period of June 30, 2000 through March 31, 2002 was conducted. Using the bank's quarterly Call Reports, an eight-quarter average was developed. The resulting average net loan-to-deposit ratio of 52.6 percent is considered to meet the standard for satisfactory performance. This conclusion is based on the bank's asset size, financial condition and the credit needs of its assessment area. The ratio is based on total loans net of unearned income and net of the allowance for loan and lease losses (ALLL) as a percentage of total deposits. The quarterly ratio has fluctuated from a low of 40.3 percent reported on March 31, 2001 to a high of 67.6 percent reported in December of 2001. The bank's average net loan to deposit ratio has increased since the previous examination conducted by the FDIC on April 26, 1999, which was 28.2 percent.

The asset size of the institution has increased approximately 11 percent since June 2000. Loan growth has significantly outpaced deposit growth over this period of time resulting in an increase in the net loan to deposit and net loan to asset ratios. Loan growth has increased approximately 59 percent from June 30, 2000, to March 31, 2002. Deposit growth has increased approximately 13 percent for this same time period. Management attributed the increase in loans, in part, to the changes in the bank's staffing and lending practices, which have significantly improved the bank's overall lending performance and have enabled it to better compete with local lenders. Since the last examination, and with the addition of a new senior management team, the bank's total assets have increased substantially from \$88.9 million on December 31, 1998 to \$145.9 million on March 31, 2002. Total loans have also increased substantially from \$17.9 million to \$75 million since December 1998.

As mentioned in the performance context section of this report, the bank's assessment area is very competitive. The following table includes institutions within the bank's assessment area that are considered to be similar in asset size. The table details the institutions' asset size, and net loan to deposit ratio as of December 31, 2001, the most recent information available. The institutions are listed with the net loan to deposit ratio in descending order.

COMPARATIVE NET LOAN TO TOTAL DEPOSIT RATIO as of December 31, 2001		
Institution	Total Assets \$(000)	Net Loan to Deposit Ratio
Horizon Bank & Trust Company	109,624	96.3
South Shore Cooperative Bank	113,252	91.4
Weymouth Cooperative Bank	130,404	76.9
South Coastal Bank	139,757	67.6
The Braintree Cooperative Bank	150,864	67.4
North Abington Cooperative Bank	73,620	58.1

In addition, South Coastal Bank is an active participant in the secondary market. In 1999, 2000 and 2001, South Coastal Bank sold 25 loans totaling \$2,696,600, 12 loans totaling \$1,737,454, and 29 loans totaling \$4,178,500, respectively.

Based on the above information, the bank's asset size and resources, competition, and the credit needs of the assessment area, the bank's net loan to deposit ratio is considered reasonable and meets the standard for satisfactory performance.

2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)

South Coastal Bank's lending within its assessment area is considered to meet the standards for satisfactory performance. An analysis of lending inside the institution's assessment area was performed by reviewing the 1999, 2000 and 2001, Home Mortgage Disclosure Loan Application Registers (LAR). During this period, the bank originated 248 loans totaling \$63,554,000, of which 142 (57.3 percent of the number) totaling \$30,195,000 (47.5 percent of the dollar amount) were within the bank's assessment area. The following table depicts the distribution of HMDA related loan originations by number, inside and outside the bank's assessment area.

<i>Distribution of HMDA Loans Inside and Outside of the Assessment Area</i>										
Year	Number of Loans					Dollars in Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
1999	39	54.2	33	45.8	72	6,600	46.8	7,498	53.2	14,098
2000	38	52.8	34	47.2	72	7,754	49.3	7,988	50.7	15,742
2001	65	62.5	39	37.5	104	15,841	47.0	17,873	53.0	33,714
Total	142	57.3	106	42.7	248	30,195	47.5	33,359	52.5	63,554

Source: HMDA LAR, Cra Wiz.

As indicated above, 57.3 percent of residential and home improvement mortgages were originated inside the bank's assessment area. It is important to note that although the percentage of originations within the bank's assessment area has decreased since the previous examination, when lending inside the assessment area comprised 73.1 percent of all mortgages, the number of originations overall has significantly increased. The last examination revealed that the bank had originated 19 loans inside the assessment area, which represented 73.1 percent of all loans; however during the current examination, the bank made 142 loans in the assessment area which represents 57.3 percent of total loans. As mentioned previously, the bank faces considerable competition for mortgages within its assessment area. Over 437 bank and non-bank entities have originated or purchased residential mortgages located in the bank's assessment area. As elsewhere, the larger banks and a number of mortgage companies dominate the mortgage business. The top ten residential lenders in the assessment area in 2000 consisted of the large local banks and mortgage companies.

Based on all of the above information South Coastal Bank meets the standards for satisfactory performance under this criterion.

3. LENDING TO BORROWERS OF DIFFERENT INCOMES

The bank's residential loans were further analyzed to determine the distribution of lending by borrower income level. The borrowers' reported incomes were compared to the median family income for the Boston and Brockton Metropolitan Statistical Area (MSA) according to the location of the property. These income figures are based on estimated Department of Housing and Urban Development (HUD) information. Refer to the following table for a breakdown of the estimated 1999, 2000 and 2001 HUD information.

MSA	1999	2000	2001
Boston	62,700	65,500	70,000
Brockton	55,700	57,700	61,300

Low income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA. Moderate income is defined as income between 50 and 79 percent of the median family income. Middle income is defined as income between 80 and 119 percent of the median family income. Upper income is defined as income greater than 120 percent of the median family income.

Distribution of HMDA Loans by Borrower Income									
Median Family Income Level	% Households	1999		2000		2001		Total	
		#	%	#	%	#	%	#	%
Low	20.5	5	12.8	0	0.0	3	4.6	8	5.7
Moderate	15.3	9	23.1	7	18.4	8	12.3	24	16.9
Middle	21.2	6	15.4	10	26.3	14	21.5	30	21.1
Upper	43.0	19	48.7	21	55.3	40	61.6	80	56.3
Total	100.0	39	100.0	38	100.0	65	100.0	142	100.0

Source: U.S. Census, HMDA LAR, HMDA Aggregate Data

In 1999, 2000 and 2001, the bank extended 8 loans to low-income borrowers representing 5.7 percent of residential loans granted within the assessment area. This falls well below the 20.5 percent of low-income households within the assessment area. However, it should be noted that the low-income group contains a large portion of households with incomes so low that home-ownership is virtually impossible due to the high cost of housing in the area.

In addition, the bank extended 24 loans to moderate-income borrowers, representing 16.9 percent by number as shown above. The percentage of loans by number is slightly above the 15.3 percent of moderate-income households within the assessment area. The bank also made 30 loans to middle-income borrowers, representing 21.1 percent of all mortgages loans. This corresponds exactly to the percentage of middle-income households (21.2 percent) within the assessment area.

Information obtained from the PCI Services, CRA Wiz Software was reviewed to compare South Coastal Bank's performance to the performance of other financial institutions granting loans within the area during 2000 (the most recent information available). This information indicated that, for all HMDA reporters in the bank's assessment area, 4.5 percent of the total number of loans granted were to applicants of low-income, and 16.9 percent were granted to applicants of moderate-income. Refer to the following table.

Comparative Analysis					
Median Family Income Level	% Households	Aggregate Lending Data		South Coastal Bank	
		2000		2000	
		#	%	#	%
Low	20.5	826	4.5	0	0.0
Moderate	15.3	3,063	16.9	7	18.4
Middle	21.2	4,803	26.4	10	26.3
Upper	43.0	6,247	34.4	21	55.3
N/A	N/A	3,226	17.8	0	0.0
Total	100.0	18,165	100.0	38	100.0

PCI Services, Inc. CRA WIZ & Bank's HMDA/LAR.

As depicted above, South Coastal Bank's lending to borrowers of low income is less than that of the aggregate, while lending to borrowers of moderate income is slightly above the aggregate.

In addition, South Coastal Bank has originated a significant amount of small business loans since the previous examination. In 1999, 2000, and 2001 the bank granted 26, 56 and 54 small business loans, respectively. Since South Coastal Bank is considered a small institution, it is not required to collect or report small business data, therefore, no analysis was conducted of the bank's small business data.

Based upon the above distribution of loans, both individually and in comparison to the aggregate, and given the bank's expanded role in small business lending, South Coastal Bank is found to have a satisfactory performance in lending to borrowers of different incomes.

4. GEOGRAPHIC DISTRIBUTION OF LOANS

An analysis of HMDA-reportable loans extended within the various census tracts contained in the bank's assessment area was also conducted. As mentioned in the performance context of this report, the bank's assessment area is comprised of 78 census tracts. Of these census tracts, 1 is designated as low income, 3 are designated as moderate-income, 59 are designated as middle-income, 14 are designated as upper-income, and 1 is designated as N/A.

The analysis indicated that 63.4 percent of the loans originated were within census tracts designated as middle-income, and 35.2 percent were within census tracts designated as upper-income. The remaining 1.4 percent was originated in moderate-income census tracts and the census tract designated as N/A. While the distribution of lending within moderate-and low-income census tracts appears to be quite low, consideration was given to the geographic location of the bank's branches, and the timing of their opening; as well as the housing demographics of the assessment area, which appear to have had an impact on the distribution of loans. The following tables show the geographic distribution

of loan originations within the various census tract income levels compared to the allocation of owner-occupied households within those census tracts and also compared to the aggregate performance.

HMDA Originations by Census Tract Income Level and Compared to Owner-Occupied Housing Units									
Census Tract Income Level	%Owner Occupied Housing Units	1999		2000		2001		TOTAL	
		#	%	#	%	#	%	#	%
Low	0.4	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	2.4	0	0.0	1	2.6	0	0.0	1	0.7
Middle	76.6	24	61.5	23	60.5	43	66.2	90	63.4
Upper	20.6	15	38.5	13	34.2	22	33.8	50	35.2
N/A	0.0	0	0.0	1	2.6	0	0.0	1	0.7
Total	100	39	100.0	38	100.0	65	100.0	142	100.0

Source: HMDA/LAR Data.

Although no loans were granted within the one low-income census tract, only 0.4 percent of the owner occupied properties within the assessment area are located here. According to 1990 census data, the majority of the housing units (73 percent) in this low-income tract are rental properties, which limits the demand for residential credit in this area. In addition, approximately 31 percent of the households in this low-income census tract are living below the poverty level making homeownership virtually impossible.

Comparative Analysis					
Census Tract Income Level	%Owner Occupied Housing Units	Aggregate Lending Data		South Coastal Bank	
		2000		2000	
		#	%	#	%
Low	0.4	39	0.2	0	0.0
Moderate	2.4	525	2.9	1	2.6
Middle	76.6	14,218	78.3	23	60.5
Upper	20.6	3382	18.6	13	34.2
N/A	0.0	1	0.0	1	2.6
Total	100	18165	100.0	38	100.0

South Coastal Bank's geographic distribution of loans was also compared to the aggregate performance for Year 2000. In that year, the bank made no loans in low-income census tracts, in comparison to the aggregate which made 0.2 percent. The bank originated one loan in a moderate-income census tract, representing 2.6 percent of the total loans made, versus the aggregate performance of 2.9 percent. The bank's opening

of two new branches late in 2000 must also be considered as a factor in the distribution of loans since the low income census tract and two of the moderate-income census tracts are located in Quincy, where the branch opened in November, 2000.

Based upon all of the above factors, the bank's lending distribution by income of the geography is found to be marginally satisfactory.

5. REVIEW OF COMPLAINTS/ FAIR LENDING POLICIES AND PRACTICES

South Coastal Bank has not received any complaints related to its CRA performance since the previous examination. However, the bank has procedures in place should any consumer complaints related to CRA be received.

FAIR LENDING POLICIES AND PRACTICES

South Coastal Bank does have a formal fair lending policy that is reviewed and approved by the Board annually. The most recent approval was at the August 2001 Board meeting. The bank's fair lending policy and procedures are comprehensive in nature and address specific areas such as staff training, fair lending procedures, a loan application and evaluation process, as well as applicable rules and regulations regarding the Fair Housing Act, ECOA, and the Consumer Protection Act.

All employees are provided with training appropriate to their job description and their responsibilities in fair lending issues.

The bank's staff volunteers their time to numerous area organizations in need of their technical expertise. The bank's Senior Loan Officer is a trustee and serves on the loan committee of the South Shore Economic Development Corporation. The bank's commercial lender is an active member of the South Shore Chamber of Commerce and on the steering committee of the Women's Business Connection. The bank's president is the chairman of the South Shore Chamber of Commerce and director of the South Shore YMCA. The bank also continues to support the Consumer Credit Counseling Service with annual contributions.

South Coastal Bank markets its services and products to the community through a variety of media including print and radio. Seminars are also conducted in order to make potential customers aware of the services the bank provides. In addition, there are several employees of the bank who speak a second language, which aids individuals, who may not speak English.

South Coastal Bank continues to originate loans for its portfolio and for sale in the secondary market and offers its applicants affordable mortgage programs provided by its correspondent relationships. In addition, the bank participates in the U.S. Small Business

Administration's Guaranteed Loan Program and its 504-Loan Program. Two loans were granted under these programs in 2001.

A formal Second Review Program has been established and implemented. The program requires all loan applications that are slated for denial to be reviewed by a loan officer or others experienced in credit underwriting who have no involvement with the original application and underlying transaction.

Management has also contracted with an outside consulting firm to conduct a fair lending self-assessment. The bank's auditors also conduct an annual audit of the bank's fair lending policy and performance.

MINORITY APPLICATION FLOW

MINORITY APPLICATION FLOW*								
RACE	1999		2000		2001		TOTAL	
	#	%	#	%	#	%	#	%
Native American	0	0	0	0	0	0	0	0
Asian	0	0	0	0	0	0	0	0
Black	1	2.1	0	0	0	0	1	.62
Hispanic	0	0	0	0	0	0	0	0
Joint Race	0	0	0	0	1	1.5	1	.62
Other	0	0	0	0	1	1.5	1	.62
Total Minority	1	2.1	0	0	2	2.9	3	1.8
White	46	95.8	42	91.3	66	97.1	154	95.1
NA	1	2.1	4	8.7	0	0	5	3.1
Total	48	100.0	46	100	68	100.0	162	100.0

During the period examined, South Coastal Bank received 3 applications from minorities, representing 1.8 percent of all applications. N/A applications represented 3.1 percent of all applications. South Coastal Bank's assessment area's racial composition is as follows: 0.13 percent American Indian; 1.94 percent Asian/Pacific Islander; 0.82 percent Black; 95.97 percent White; 0.25 percent Other. Over the period examined the bank received a substantially lower percentage of applications from minorities than the population distribution would suggest.

THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

SOUTH COASTAL BANK

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **MAY 28, 2002**, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

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A majority of the Board of Directors/Trustees

Dated at _____ this _____ day of _____ 20 ____

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (Address at main office)."

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that assessment area shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee, which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.